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DIRECT TESTIMONY
OF
TAMI S. HASELDEN
ON BEHALF OF
SOUTH CAROLINA ELECTRIC & GAS COMPANY
DOCKET NO. 2010-2-E

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Tami S. Haselden and my address is 100 SCANA
Parkway, Cayce, South Carolina 29033.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by SCANA Services, Inc., a subsidiary of SCANA
Corporation, where I am the Manager of Tax Compliance and
Accounting for SCANA Corporation and its subsidiaries, including
SCE&G (collectively, “SCANA”).

**Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
 (“COMMISSION”)?**

A. No. This is my first time doing so before this Commission,
although I previously have testified before the South Carolina

1 Administrative Law Court in a contested case proceeding initiated by
2 SCANA after the South Carolina Department of Revenue (“DOR”)
3 denied in part the Economic Impact Zone Investment Tax Credit (“EIZ
4 Tax Credit”) that was claimed by SCANA on its 1995, 1996, 1997, and
5 1998 corporate income tax returns. In that proceeding, which I further
6 explain below, I testified regarding the methodology employed by
7 SCANA in calculating and reporting the EIZ Tax Credit during the years
8 at issue in that proceeding.

9
10 **Q. ARE YOU A CERTIFIED PUBLIC ACCOUNTANT (“CPA”)?**

11 A. Yes. I have been a CPA since September 1988. I also am a
12 member of the American Institute of Certified Public Accountants and
13 the South Carolina Association of Certified Public Accountants.

14
15 **Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
16 **BUSINESS EXPERIENCE.**

17 A. I hold a Bachelor of Science in Business Administration,
18 Accounting Major, and a Master of Accounting with an Emphasis in
19 Taxation from the University of South Carolina. After receiving my
20 Master’s degree, I was employed with the public accounting firm of
21 Ernst & Whinney, where I was responsible for preparing income tax
22 returns, researching federal and state tax laws, and conducting financial

1 statement audits and compilations. I joined SCANA Services as a Junior
2 Tax Analyst in January 1988. Since that time and prior to assuming my
3 current position in 2005, I have worked with SCANA as a Tax Analyst,
4 a Senior Tax Analyst, a Senior Tax Specialist, and the Supervisor of Tax
5 Compliance and Accounting.

6
7 **Q. WHAT ARE YOUR DUTIES AS THE MANAGER OF TAX**
8 **COMPLIANCE AND ACCOUNTING?**

9 A. I am primarily responsible for the successful completion and
10 filing of SCANA's federal and state consolidated income tax returns. In
11 addition, I am responsible for directing tax research, coordinating with
12 external accounting, tax, and legal firms, implementing various financial
13 accounting standards related to accounting for income taxes, developing
14 procedures to comply with tax accounting requirements, negotiating
15 settlements with taxing authorities, analyzing the impact of tax law
16 changes, and overseeing departmental documentation of internal controls
17 in compliance with the Sarbanes-Oxley Act of 2002.

18
19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20 A. The purpose of my testimony is to explain SCE&G's proposal to
21 reduce its fuel costs in this base fuel rate proceeding through a change in
22 its method of accounting for the EIZ Tax Credit.

1 **Q. PLEASE EXPLAIN THE ECONOMIC IMPACT ZONE**
2 **INVESTMENT TAX CREDIT AND PROVIDE THE PURPOSE**
3 **STATED BY THE GENERAL ASSEMBLY FOR ENACTING**
4 **THAT CREDIT.**

5 A. In 1995, the South Carolina General Assembly enacted the
6 Economic Impact Zone Community Development Act of 1995 (the “Act”),
7 South Carolina Code Sections 12-14-10 to 12-14-70, as amended. The Act
8 establishes the EIZ Tax Credit against the state corporate income tax
9 liability of any company placing in service tangible manufacturing or
10 production equipment within a designated Economic Impact Zone. The
11 purpose of the Act, which is explained in Section 12-14-20, is stated as
12 follows:

13 It is the purpose [of the Act] to establish a program of providing tax
14 incentives for the creation of economic impact zones in order:

15 (1) to revitalize economically and physically distressed areas
16 impacted as a result of the closing or realignment of a federal
17 military installation area, primarily by encouraging the
18 formation of new businesses and the retention and expansion of
19 existing businesses;

20 (2) to promote meaningful employment for economic impact
21 zone residents; and

22 (3) to encourage individuals to reside in the economic impact

1 zones in which they are employed.

2

3 **Q. WHAT IS THE DEFINITION OF AN ECONOMIC IMPACT**
4 **ZONE?**

5 A. Consistent with the purpose of the Act, Section 12-14-30(1) defines
6 an Economic Impact Zone as any county or a municipality having any
7 portion of its boundaries within a 50-mile radius of an “applicable federal
8 military installation” or “applicable federal facility.” An “applicable
9 federal military installation” is defined in Section 12-14-30(2) as a federal
10 military installation that has been closed or realigned under federal law. An
11 “applicable federal facility” is defined in Section 12-14-30(3) as a federal
12 facility at which employment has been reduced by 3,000 or more jobs after
13 December 31, 1990. This latter definition includes the Savannah River
14 Site, which is located in portions of Aiken County, Allendale County, and
15 Barnwell County near the Savannah River.

16

17 **Q. WHAT COUNTIES QUALIFY AS AN ECONOMIC IMPACT**
18 **ZONE PURSUANT TO THESE DEFINITIONS?**

19 A. In its Information Letter 96-23 dated November 19, 1996, the
20 South Carolina Department of Revenue (“DOR”) identified the following
21 counties as Economic Impact Zones effective April 4, 1995:

| | | |
|------------|------------|--------------|
| Aiken | Colleton | Jasper |
| Allendale | Dillon | Lexington |
| Bamberg | Dorchester | Marion |
| Barnwell | Edgefield | McCormick |
| Beaufort | Florence | Newberry |
| Berkeley | Georgetown | Orangeburg |
| Calhoun | Greenwood | Richland |
| Charleston | Hampton | Saluda |
| Clarendon | Horry | Williamsburg |

1 All or a portion of these 27 counties fall within SCE&G's electric service
2 area with the exception of Dillon County; Florence County; Georgetown
3 County; Horry County; Marion County; and Williamsburg County.

4
5 **Q. DOES EQUIPMENT PLACED IN SERVICE BY SCE&G WITHIN**
6 **THE COUNTIES DESIGNATED AS ECONOMIC IMPACT ZONES**
7 **QUALIFY TO RECEIVE THE EIZ TAX CREDIT?**

8 A. Yes. As pertinent to this electric fuel proceeding, Section 12-14-60
9 allows the credit for any tangible property placed in service within an
10 Economic Impact Zone and used as an integral part of furnishing electrical
11 energy in that zone.

12

13

1 **Q. HOW IS THE AMOUNT OF THE EIZ TAX CREDIT**
2 **DETERMINED?**

3 A. The amount of the EIZ Tax Credit is based on a percentage of the
4 tax basis of the property placed in service within the Economic Impact
5 Zone. The applicable percentage is based upon the tax life of the property
6 as designated by the Internal Revenue Code for tax depreciation purposes,
7 and ranges from 1% for property with a tax life of three years to 5% for
8 property with a tax life of 15 years or more. Most of the qualifying
9 property placed in service by SCE&G has a tax life of 15 years or more
10 due to the nature of the assets used to furnish electrical energy in Economic
11 Impact Zones. Thus, most of the qualifying property placed in service by
12 SCE&G generates a credit of 5% of the tax basis of that property.

13

14 **Q. ARE THERE ANY LIMITATIONS ON THE AMOUNT OF THE**
15 **EIZ TAX CREDIT THAT MAY BE GENERATED BY A**
16 **COMPANY IN EACH YEAR?**

17 A. Yes. For investments made after June 30, 1998, Section 12-14-
18 60(H) limits the amount of the credit that SCE&G may generate in each
19 year to \$5,000,000. It is important to note, however, that this limitation did
20 not apply to the tax years at issue in SCANA's controversy with DOR
21 concerning the EIZ Tax Credits because those credits all were generated
22 prior to June 30, 1998.

1 **Q. IF THE COMPANY’S CORPORATE INCOME TAX LIABILITY**
2 **IN A PARTICULAR YEAR IS LESS THAN THE AMOUNT OF**
3 **THE EIZ TAX CREDIT GENERATED FOR THAT YEAR, WHAT**
4 **HAPPENS TO THE REMAINING OR UNUSED EIZ TAX**
5 **CREDIT?**

6 A. Section 12-14-60(D)(1) permits a carryforward of unused EIZ Tax
7 Credits for a period of “ten years from the close of the tax year in which
8 the credit was earned.” In other words, the unused tax credit can be applied
9 against the tax liability generated in later tax years for a period of ten years
10 or until the credit is completely used, whichever happens first. This
11 carryforward provision was not in the original version of the Act, but was
12 added by amendment on June 24, 1997 and made effective for tax years
13 beginning after 1996. I am familiar with the carryforward provision and the
14 issues involving the effective date of the amendment because this was one
15 of the issues involved in SCANA’s controversy with DOR.

16
17 **Q. PLEASE IDENTIFY THE ISSUES RAISED IN THE**
18 **CONTROVERSY WITH DOR.**

19 A. There actually were two issues involved in SCANA’s litigation
20 with DOR. The first issue involved whether SCANA could claim the EIZ
21 Tax Credit in the 1995 tax year for property placed into service prior to
22 April 4, 1995, which is the date that the Act was signed into law by the

1 Governor and, thus, became effective. The second issue was whether
2 SCANA could claim on its 1997 and 1998 state corporate tax returns an
3 EIZ Tax Credit generated but not fully used in the 1996 tax year.
4

5 **Q. PLEASE BRIEFLY EXPLAIN THE CONTROVERSY WITH**
6 **RESPECT TO THE ISSUE OF THE EFFECTIVE DATE FOR**
7 **TAKING EIZ TAX CREDITS.**

8 With respect to this issue, SCANA contended that it was entitled to
9 claim approximately \$2.1 million in EIZ Tax Credits related to property
10 placed into service between January 1, 1995 and the effective date of the
11 Act, which was April 4, 1995. DOR contended that SCANA could claim
12 the credit only for property placed into service after the effective date of
13 the Act. SCANA challenged DOR's determination in the contested case
14 proceeding before the ALC, which ruled in favor of SCANA on that issue
15 in April 2006. DOR appealed that issue to the South Carolina Court of
16 Common Pleas, and SCANA again prevailed on that issue when the court
17 affirmed the ALC's ruling in November 2006. DOR did not further appeal
18 that issue to the South Carolina Supreme Court and, thus, abandoned its
19 challenges to SCANA's EIZ Tax Credit related to property placed into
20 service between January 1, 1995 and April 4, 1995.
21

1 **Q. AND PLEASE EXPLAIN THE CONTROVERSY PERTAINING TO**
2 **THE ISSUE OF CARRYING FORWARD UNUSED TAX CREDITS**
3 **FROM 1996 TO 1997 AND 1998.**

4 A. In 1996, SCANA generated a total EIZ Tax Credit of \$29,575,619.
5 However, SCANA's total state income tax liability for that year was
6 \$14,252,362. SCANA carried forward the unused EIZ Tax Credit of
7 \$15,323,257 to offset its tax liability for the 1997 tax year. This amount
8 subsequently was reduced to \$15,284,526 following an audit by DOR.
9 Because the credit was not fully used in 1997, SCANA then carried
10 forward and used the remaining 1996 EIZ Tax Credit to offset its tax
11 liability for the 1998 tax year. The carryover of the 1996 EIZ Tax Credit
12 was completely used in the 1998 tax year.

13 DOR rejected the use of the carryover for both the 1997 and 1998
14 tax years, asserting that SCANA could not carry forward any credits
15 generated but not used during the 1996 tax year because the statutory
16 provision allowing a carry forward was enacted after 1996 and, thus, did
17 not apply to investments made during that tax year. DOR thus disallowed
18 the tax credit for the 1997 and 1998 tax years and retained the \$15,284,526
19 that SCANA claimed as a credit on its returns for those two years.

20 SCANA challenged DOR's decision in the ALC, which ruled in
21 favor of DOR on this issue in April 2006. SCANA appealed the ALC's
22 decision on this issue to the South Carolina Court of Common Pleas at the

1 same time that DOR appealed the ALC's decision on the effective date
2 issue to that court. As stated previously, the court affirmed the ALC's
3 findings with respect to the effective date issue, and also ruled in
4 SCANA's favor on this carryforward issue, thereby authorizing SCANA's
5 carryforward of the credits to the years 1997 and 1998.

6 DOR appealed the decision of the Court of Common Pleas with
7 respect to the carryforward issue to the South Carolina Supreme Court.
8 After initially reversing the Court of Common Pleas' decision and ruling in
9 favor of DOR in June 2008, the Supreme Court in September 2009 granted
10 SCANA's petition for rehearing and reversed its original decision, holding
11 that SCANA was entitled to carry forward any unused EIZ Tax Credit to
12 tax years after 1996 based on the plain language of the statute.

13
14 **Q. HAS THE DEPARTMENT OF REVENUE SINCE REFUNDED**
15 **THE DISALLOWED AMOUNT OF THE EIZ TAX CREDIT?**

16 A. Yes. SCANA received a refund of the \$15,284,526 from DOR
17 shortly after the Supreme Court's decision, of which \$14,913,957 was
18 allocable to SCE&G's electric operations and \$370,569 allocable to its gas
19 operations.

1 **Q. DOES SCE&G NOW PROPOSE TO CHANGE THE METHOD BY**
2 **WHICH IT ACCOUNTS FOR THE EIZ TAX CREDIT FOR**
3 **REGULATORY PURPOSES?**

4 A. Yes.

5

6 **Q. HOW HAS SCE&G ACCOUNTED FOR THE EIZ TAX CREDIT**
7 **FOR REGULATORY PURPOSES IN PRIOR PERIODS?**

8 A. The EIZ Tax Credit reduces state income taxes and, because state
9 income taxes are a deduction on the federal income tax return, results in an
10 increase in federal income taxes of 35% of the amount of the EIZ Tax
11 Credit. This net benefit (i.e., reduction) to income tax expense is
12 currently being deferred and amortized over a 30-year period, which is
13 the estimated approximate average service life of the property additions
14 which generate the EIZ Tax Credit. SCE&G has consistently applied this
15 method of accounting since 1998.

16

17 **Q. DOES SCE&G PROPOSE TO REDUCE ITS FUEL COSTS IN**
18 **THIS PROCEEDING THROUGH A CHANGE IN THE METHOD**
19 **OF ACCOUNTING FOR THE EIZ TAX CREDITS?**

20 A. Yes. Although the majority of the amounts reflected in the net
21 deferred EIZ Tax Credit accounts will be used to offset \$10,000,000 in
22 revenue requirements for each of the next five years as part of the

1 Company's pending Application for Increases and Adjustments in the
2 Company's Electric Rate Schedules and Tariffs (the "Electric Rate
3 Proceeding"), the Company proposes to apply the remaining balance of the
4 net deferred EIZ Tax Credit accounts to offset a portion of the accumulated
5 undercollected balance of SCE&G's base fuel costs.

6
7 **Q. WHY DOES SCE&G PROPOSE THIS ACCOUNTING CHANGE?**

8 A. If approved by the Commission and adopted, this change would
9 allow the Company's customers to receive the full benefit of that portion of
10 the tax credit allocated to fuel costs in this review period. Further, the
11 expedited amortization of the existing deferred EIZ Tax Credit accounts
12 will provide more immediate benefit to customers as part of the Electric
13 Rate Proceeding. In sum, the Company believes its proposed accounting
14 change is a preferable method of accounting for the EIZ Tax Credit going
15 forward.

16
17 **Q. WHAT IS THE PROPOSED AMOUNT OF THE REDUCTION TO**
18 **THE BALANCE OF UNDERCOLLECTED FUEL COSTS THAT**
19 **WILL RESULT FROM THIS ACCOUNTING CHANGE?**

20 A. The proposed amount available for use in this fuel rate proceeding
21 after the adjustments applicable to the Electric Rate Proceeding are made
22 will be a one-time reduction in fuel costs of \$17,388,364.

1 **Q. HOW DID THE COMPANY CALCULATE THE PROPOSED**
2 **REDUCTION IN FUEL COSTS IN THIS PROCEEDING AS A**
3 **RESULT OF THE ACCOUNTING CHANGE?**

4 A. As demonstrated in Exhibit No. ____ (TSH-1), we first determined
5 the amount of the net deferred tax benefits that would be required to offset
6 a total of \$50,000,000 of revenue over the next five years—\$10,000,000
7 each year—as part of SCE&G’s Electric Rate Proceeding. This
8 requirement will be met by amortizing and recognizing \$6,175,000 of the
9 net deferred tax benefits each year, for a total of \$30,875,000 over the next
10 five years. This leaves an unrecognized net deferred tax benefit of
11 \$10,737,315, which the Company proposes to use in this fuel proceeding.

12
13 **Q. PLEASE EXPLAIN HOW THE AMOUNT OF \$10,737,315 IN TAX**
14 **CREDITS TRANSLATES INTO A PROPOSED REDUCTION IN**
15 **FUEL COSTS OF \$17,388,364.**

16 A. We calculated the gross amount of revenue that, when reduced by
17 the statutory tax rate, would equal \$10,737,315, which is the amount of the
18 remaining net deferred tax benefits after using \$30,875,000 of the net
19 deferred tax benefits in the Electric Rate Proceeding. This calculation is
20 shown in Exhibit No. ____ (TSH-1).

21

1 **Q. PLEASE SUMMARIZE YOUR TESTIMONY FOR THE**
2 **COMMISSION.**

3 A. SCE&G proposes to apply part of the balance of its net deferred
4 EIZ Tax Credit accounts to reduce its fuel costs in this proceeding.
5 Specifically, the Company proposes as part of the Electric Rate Proceeding
6 to flow through the EIZ Tax Credit for regulatory purposes when
7 recognized on the Company's South Carolina corporate income tax return
8 rather than creating a net deferred tax credit that is amortized over a 30-
9 year period for regulatory purposes. The Company further proposes to
10 accelerate the amortization of the net amount of the deferred EIZ Tax
11 Credit accounts reported on the Company's balance sheet as of December
12 31, 2009. Although the majority of the amount recognized through this
13 accelerated amortization will impact the Electric Rate Proceeding, the
14 Company proposes to use the remaining balance in the net deferred EIZ
15 Tax Credit accounts to reduce the accumulated undercollected balance of
16 fuel costs in this proceeding by \$17,388,364. In summary, the Company
17 recommends approval of this approach as being reasonable and beneficial
18 to our customers.

19

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21 A. Yes.

**Proposed Treatment of SC Economic Impact Zone Investment Tax Credit
Reduction to Fuel Costs
12/31/2009**

| | | |
|--|---------------|--------------------------|
| Balance Of Net Deferred EIZ Tax Benefits At 12/31/09 | | 41,612,315 |
| Revenue to be Offset by Proposed EIZ Adjustment in Electric Rate Proceeding | 50,000,000 | |
| Multiplied By After Tax Percentage (1-.3825) | <u>0.6175</u> | |
| Equals The Net Deferred EIZ Tax Benefits Proposed For The Electric Rate Proceeding | 30,875,000 | <u>(30,875,000)</u> |
| Remainder Of Net Deferred EIZ Tax Benefits Available For This Fuel Proceeding | | 10,737,315 |
| Divided By After Tax Percentage (1-.3825) | | <u>0.6175</u> |
| Equals Reduction in Fuel Costs (Reduction to Undercollection Balance) | | <u><u>17,388,364</u></u> |